



HEALTHCARE IN SOUTH AFRICA

Creating the right incentives

As the South African Government presses ahead with plans to introduce a National Health Insurance scheme, careful thought must be given to how healthcare providers will be reimbursed and the incentives created by different payment mechanisms, in order to ensure quality of care for patients and value for money.

South Africa faces a dual healthcare challenge, as it struggles with both the rising costs and chronic disease burden of a developed economy, as well as the public healthcare access and quality issues of a developing country.

In this article, Victoria Barr, Senior Director at FTI Consulting, considers the challenges of managing cost in the healthcare sector and how different payment mechanisms can impact on incentives to improve quality and reduce costs.

How should the money flow?

The government's proposed response to the country's healthcare challenges was summarised in the White Paper on National Health Insurance (NHI), published in December last year. Much of the discussion following the publication of the White Paper focused on how the scheme will be funded. While this is a supremely important question from a fiscal perspective, where the money will come from is only part of the problem and is in some ways a more straightforward question than how the money should be spent.

The White Paper does not give much detail on how money will flow from the proposed NHI fund to providers of healthcare services (whether public or private). This is a key dynamic, which is often overlooked but which has a profound impact on the incentives of organisations and individuals to behave in desirable or undesirable ways.

Taking an example from the UK, hospitals there are reimbursed on a per patient basis. This method of payment was introduced in the mid-2000s, when the major issue facing the National Health Service (NHS) was long waiting times for treatment. The per patient payment mechanism encouraged hospitals to do more operations and waiting lists were successfully reduced.

Rising cost of care

However, the main challenge now facing the NHS, and most other developed countries, is the rising cost of caring for elderly people and people with long-term conditions, like diabetes. In this context, resources should be focused on preventative care which helps people to manage their condition and reduces the risk of them developing more serious complications which require (expensive) hospital treatment. Unfortunately, preventative, community-based care is funded through lump sum, fixed budgets, which do not reward additional activity, while hospitals get paid for every extra patient they see. The payment mechanism therefore encourages less preventative care and more hospital care, when the exact opposite would be better for patients and taxpayers.

Nothing's perfect

This example demonstrates that even when (if) the government finds the money to fund NHI, it is not just a simple question of handing over the cash to healthcare providers. Unfortunately, there is no single, perfect mechanism for paying for healthcare services. Each different

method has both advantages and disadvantages, and in fact the same dynamic (e.g. encouraging activity) can be an advantage or a disadvantage depending on the context, as in the UK example above. The right payment mechanism must be selected for each type of service, based on the characteristics of the service and what policy makers are trying to achieve.

Ensuring value for money

In the South African context, getting this right will be crucial. Given the shortcomings of the public health system and the high quality of care provided in many areas of the private sector, contracting publically funded services from the private sector seems an obvious route to explore. However, the NHI fund will need to be smart and savvy in their contracting to ensure that they achieve the best value for money for taxpayers and patients.

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